

EXHIBITS

Exhibit 9: DHCD Responses to the Report, Findings, and Recommendations

FINDING 3: ACCOUNTABILITY FOR ADMINISTRATIVELY FUNDED PROJECTS

Summary of Finding:

DHCD did not record or track by project the amount of funds expended for the administrative costs for at least 74 projects undertaken by the CDCs during the fiscal years 1994 through 1999. DHCD paid the CDCs for vouchers submitted by the CDCs without requiring the CDCs to account for the funds spent on the projects. As a result, DHCD could not substantiate that the 23.1 million it had awarded by subgrants to the CDCs was spent or will be spent for the purposes contained in the authorizing subgrants and the purposes of the CDBG funds. In addition, we can not determine whether the total direct and indirect costs if a project, funded with CDBG were correct.

DHCD RESPONSE TO FINDING:

DHCD has allowed for the fact that actual administrative costs for projects cannot be determined since the administrative costs provided under the subgrant to the CDC was not intended solely for project development. The intent was to provide overall administrative funding for operating costs and capacity building in support of projects, micro-lending activity, merchant associations, outreach, marketing and technical assistance for businesses. The vouchers submitted before disbursement of funds served as verification of expenses pursuant to the use of administrative costs under CDBG regulations (24 CFR 570.206 ch. V) and pursuant to the subgrant agreement. As a result, HUD monitoring for fiscal years 1994 through 1996 has verified the eligibility and compliance of funds disbursed for that period for administrative costs.

It should also be noted that the funds disbursed were in keeping with the purposes of the authorizing subgrants, which clearly indicate that the funding is being disbursed for administrative purposes as defined by CDBG regulations. With regard to direct and indirect costs under the subgrants, these cost are organizational costs, not project cost and as such are calculated based on accepted accounting methods relating to an organization, not the project. The indirect costs are reviewed and approved by the Comptroller for use by the Program in disbursing funds.

In response to the OIG's assessment that the costs categories in the subgrants provided no insight into the costs of the projects that were funded, it can only be said again, that was not the intent of the administrative funding provided. Administrative funding was provided to CDCs for a variety of supportive activities to facilitate revitalization activities in keeping with eligible use of CDBG funds. Pursuing the development of projects was only one of these activities.

RECOMMENDATION 3

- a) Establish procedures and controls that ensure DHCD awards its grants and subgrants with provisions requiring CDCs and other grant and subgrant recipients to track administrative costs by project

EXHIBITS

Exhibit 9: DHCD Responses to the Report, Findings, and Recommendations

DHCD RESPONSE:

DHCD agrees with this recommendation. Prior to the audit, DHCD initiated reengineering efforts which included the requirement to track administrative costs (see Attachment 3a) tied not only to projects but also to the other activities funded under the subgrant. For your review a copy of the fiscal year 2000 solicitation and the Grant Agreement documents verifying the above are attached (see Attachment 3a.1 and 3a.2).

- b) Ensure the CDCs and other recipients of DHCD grants or subgrants awarded in FY 2000 and subsequent years, have an adequate cost tracking or allocation process in place before paying vouchers for administrative costs.

DHCD RESPONSE:

DHCD does not agree with this recommendation. The cost categories currently utilized are required in keeping with the use of administrative funds. Therefore DHCD will continue to use the costs categories as they currently exist in the subgrants. It should be noted that the consultant firm of ICF Kaiser was commissioned by HUD to develop policies and procedures for DHCD for the administration and monitoring of all HUD-funded (administrative funding) subrecipients. ICF Kaiser were so impressed with the policies and procedures used by the Division of Residential and Community Services for the oversight of CDCs and Community Based Organizations that they used them as a model for developing the final document. This document was provided to the OIG during the Audit.

The use of these cost categories is in keeping with the policies and procedures accepted by both HUD and DHCD. However, under the realignment of the NDAP, DHCD has instituted the tracking of administrative costs associated with projects and other activities (see Attachment 3a.2 referenced above.)

EXHIBITS

Exhibit 9: DHCD Responses to the Report, Findings, and Recommendations

FINDING 4: EXPENDITURES FOR CDBG ACTIVITIES

Summary of Finding:

DHCD authorized expenditures totaling \$12,850,000 for two projects, which includes \$11,745,000 that we consider questioned costs because DHCD did not provide sufficient documentation for review. As a result, we were unable to review expenditures for the Good Hope Marketplace Project (\$11.5 million) and the New York Avenue Metrorail Feasibility Station Study (\$245,000) to determine compliance with CDBG regulations and grant provisions.

RECOMMENDATION 4

Provide the documentation to support the disbursements made for the Good Hope Marketplace Project and the New York Avenue Metrorail Feasibility Station Study.

DHCD RESPONSE:

Good Hope Marketplace

By memorandum dated December 3, 1997, DHCD directed the D.C. Treasurer to wire transfer \$11,437,657 to Commercial Settlements, Inc., the closing agent, so that the funds would be available at settlement on the project. The funds were expended for the intended purpose of the HUD 108 loan, and the Good Hope Marketplace continues to be a fully functioning community retail center. There has never been any question that the proceeds of the 108 loan were used for any other purpose.

Attached for your review is the memorandum of instruction and settlement sheets that support disbursement of 108 loan project funds. (See Attachment 4a.)

New York Avenue Metrorail Station Feasibility Study

DHCD made available all project information for the OIG review, including supporting documents for approved expenditures. Specifically, in support of expenditures, DHCD provided computer-generated printouts that represented state-of-the-art software in managerial accounting for architectural and engineering firms. The referenced printouts consisted of seven (7) pages that contained detailed cost expenditures, which were measured against DHCD's approved work tasks in the subcontractor's work breakdown structure. These documents were provided to the auditor during the review.

Through verification of documentation submitted, DHCD was assured that the funds provided for the New York Avenue Metrorail Feasibility Station Study (New York Ave.) were expended in accordance with the grant provisions and program regulations. The subcontractor, Parsons Transportation Group Inc./De Leuw, Cather & Company, used electronic data processing to respond to DHCD's financial reporting requirements. This accounting and reporting practice meets DHCD approval and is supported by 24 CFR Part 570.506.

EXHIBITS

Exhibit 9: DHCD Responses to the Report, Findings, and Recommendations

Further, the subcontractor was required to submit invoices to the prime contractor, Save New York Avenue, Inc. (SNYAI), prior to receiving payment, and did so. The subcontractor was paid based on the percentage of progress completed in accordance with a "deliverables schedule" approved by DHCD. The work product (New York Avenue Metrorail Station Feasibility Study) was completed on time and within budget.

Following CDBG regulations, a program specific audit was conducted by an independent public accounting (IPA) firm, in accordance with generally accepted auditing standards, providing an unqualified opinion. DHCD's Office of Program Monitoring and Office of the Comptroller have analyzed every facet of the project's scope of work, and its financial performance, and the IPA audit, and conclude that all federal regulations have been appropriately followed. A copy of the audit accompanies this response as Attachment 4b.

As a result of the feasibility study, which was to determine if a new metro station could be constructed in the vicinity of 1st and New York Avenue, NE, Mayor Anthony A. Williams and property owners in the New York Avenue Metro Special Assessment District signed an agreement that outlines a public/private financing plan to jointly raise \$25 million towards the estimated cost of \$75 million for the new metro station. Additionally, the study was the basis for WMATA to include in their current work plan the construction of a new station on the Red Line on New York Avenue, NE, and to request funding from the US Department of Transportation (DOT) for the new station. This all culminated in the February 3, 2000 announcement by President Clinton that the DOT would disburse \$25 million to provide for the development of the New York Avenue metro station. The study was also a factor in the decision of the Bureau of Alcohol, Tobacco and Firearms to build new headquarters on a site near the proposed New York Avenue metro station site. All of these actions will lead to major economic development in a depressed neighborhood and bring revitalization to the surrounding area.

EXHIBITS

Exhibit 9: DHCD Responses to the Report, Findings, and Recommendations

FINDING 5: FINANCIAL DISCLOSURE OF EMPLOYEES

Finding and recommendations were resolved and closed.

EXHIBITS

Exhibit 9: DHCD Responses to the Report, Findings, and Recommendations

FINDING 6: CONTROLS OVER CONFLICT OF INTEREST AT COMMUNITY DEVELOPMENT CORPORATIONS

Summary of Finding:

The CDCs did not have adequate controls and procedures to prevent and detect conflicts of interests by the officers, board members and employees. DHCD had not included within its subgrant agreements and loans to the CDCs a specific requirement for conflicts of interest. Only one CDC had a system, procedures, or other means to monitor or detect conflicts of interests by its officers and employees. As a result, we could not be assured that the CDCs used CDBG funds in the most judicious manner, uninfluenced by personal financial interests of CDC board members, officers, and employees.

RECOMMENDATIONS 6

- a. Include a requirement within subgrant and loan agreements that ensure CDCs and other recipients of CDBG funds have written standards of conduct that address all applicable elements of Title 24, Sections 570.611, 85.36.b.(3), and 84.42.

DHCD RESPONSE:

DHCD currently requires that CDCs funded under the Neighborhood Development Assistance Program (NDAP) submit copies of their conflict of interest policies (see NDAP grant agreement, Special Conditions, Section 12, Sub-article E), consistent with Title 24 CFR 570.611. However, because 24 CFR 570.611 explicitly states the applicability of 85.36 and 84.42, DHCD did not include those citations in grant and loan agreements. The current language is included in all FY 2000 NDAP grant agreements. Copies of the conflict of interest policies are reviewed for regulatory sufficiency, and maintained on file in the Division of Residential and Community Services. These documents are applicable to all CDC subgrant activities carried out with federal funds, including construction activities. In addition, a provision requiring all other subrecipients of federal funds to provide conflict of interest policies prior to loan closing will be included in all other grant and loan agreements executed by DHCD. As a part of the regular monitoring, DHCD will ensure that all CDCs and other grant recipients maintain a current conflict of interest policy consistent with 24 CFR, Parts 570.611, 85.36.b.(3) and 84.42, and that all grant subrecipients develop and implement administrative controls to prevent and detect employee conflicts of interest.

- b. Include a requirement within subgrant and loan agreements that ensure CDCs and other recipients of CDBG funds require employees, officers, and board members to submit annual and supplemental statements of financial interests for review by appropriate recipient officials to detect potential conflicts of interest.

EXHIBITS

Exhibit 9: DHCD Responses to the Report, Findings, and Recommendations

DHCD RESPONSE:

FY 2000 CDC grant agreements will be amended by March 31, 2000 to require CDCs to provide annual statements of financial interests for employees, officers and board members for review by DHCD personnel. These statements will be due 30 days after execution of the amendment, and on an annual basis, thereafter. These statements will be reviewed to ensure that conflicts of interest or the appearance of such do not exist. All statements will be maintained as confidential records of DHCD. As a part of monitoring for all other subrecipient agreements, DHCD staff will ensure that employees of subrecipients have complied with the conflict of interest provision, and that management has reviewed employee disclosure statements.

EXHIBITS

Exhibit 9: DHCD Responses to the Report, Findings, and Recommendations

FINDING 7: RECORD MAINTENANCE AND RETENTION

Summary of Finding

DHCD did not always have required records available to substantiate the specific details of 31 subgrants and loans, totaling \$7,321,282, that were awarded to its CDCs during FY 1994 through FY 1998. As a result, we could not determine the specific nature and purposes(s) of the subgrants and loans and whether the awards were made in compliance with applicable regulations. In addition, poor record keeping can be the means to prevent the detection of waste, fraud, and mismanagement. We were informed that FY 1994 documents were destroyed and the other documents not provided were on file, but not filed in a manner in which they could be readily retrieved. We noted that the individual project managers, instead of a centrally controlled filing system, maintained project files of the Development Finance Division. In general, we attribute the lack of adequate record keeping to the general disorganization of DHCD and the lack of continuity in executive management, which in turn, caused DHCD to disregard the requirements of District regulations.

RECOMMENDATION 7

- a. Establish procedures and controls that ensure DHCD employees adhere to record keeping and retention requirements of Chapter 29 and 50 of the DCMR.

DHCD RESPONSE:

The Department will complete and submit its proposed Records Retention and Disposition Plan to the D.C. Office of Public Records for approval, on or before September 30, 2000.

- b. Establish a continuing program to achieve efficient and economical records management so that users have ready access to documentation of the DHCD organization, functions, policies, decisions, procedures, and essential truncations in accordance with DCMR, Section 2906(b).

DHCD RESPONSE:

DHCD has taken a proactive approach in quantifying the problem and identifying a solution to achieve efficient and economical records management. The Department is currently in contract negotiation with a firm that develops and markets software solutions to archive, access and distribute valuable document assets. The product will allow the entire Department to manage and retrieve documents in accordance with organizational policies, decisions, procedures, and essential truncations in accordance with DCMR, Section 2906(b) from a database that is accessible from any desktop. This records management software system will be fully implemented by December 31, 2000. Features of this software are:

- Safeguarding of documents;
- Fast access to archives;
- Cost – effective storage and;
- Affordable distribution

EXHIBITS

Exhibit 9: DHCD Responses to the Report, Findings, and Recommendations

To ensure compliance with the records retention schedule and full utilization of this new records management tool, the contractor will provide training to DHCD staff. Further, as ongoing technical support the contractor will provide consulting services and customer service support. Original documentation will be archived and maintained in accordance with the approved Office of Public Records retention schedule.

- c. Locate the missing documents and related files identified in Table C and mark the files so that they are retained for potential future audit by the OIG. These documents and related files should not be destroyed until the criteria provided in the DCMR has been met, or September 30, 20002, whichever is later.

DHCD RESPONSE:

As a past general practice, DHCD only disposed of project files after the federally imposed retention period subsequent to formal review by the U.S. Department of Housing and Urban Development (HUD) and completion of required year-end audits by private auditing firms. Effective immediately, DHCD's disposition of all governmental documentation will be consistent with the applicable District and federal requirements.

The DC OIG audit started at the same time that DHCD was moving its office from 51 N Street, NE to its current location at 801 North Capitol Street, NE. In preparation for this move DHCD disposed of some CDC files listed in Table C. for FY 1994 because the OIG's initial audit scope did not include FY 1994. It was determined acceptable to dispose of such files as DHCD had submitted its Grantee Performance Report, containing year-end expenditure data, to HUD, and HUD had monitored grant activities for this period. If this funding period had been included in the original audit scope conveyed to DHCD, the files would have been retained and made available for review. It is unfortunate that the OIG's audit occurred during the time that DHCD was in the process of relocating its offices to a new physical site. These relocation activities contributed to a delay in immediately providing some records for review. However, all records in DHCD's possession are available for OIG review.

Table C list specific records that the OIG purports were not made available for review. DHCD records indicate that the following files were provided to the OIG. These files remain available for review, and will not be destroyed until the required record retention period has elapsed.

<u>CDC</u>	<u>Document</u>	<u>Fiscal Year</u>	<u>Total</u>
ERCDC	DB 000R14	1997	\$100,000
ERCDC	DB 000R13	1997	80,000
MHCDC	DB 000B18	1994	300,000
MHCDC	DB 000B08	1994	72,376
LEDC	CD 9507	1995	258,847
WSCDC	CD 9512	1995	228,025

EXHIBITS

Exhibit 9: DHCD Responses to the Report, Findings, and Recommendations

ERCDC	CD 8888	1995	50,000
ERCDC	NE 0002	1996	50,000
ERCDC	NE 0001	1996	30,000

DHCD was not able to identify the remaining documents as listed on Table C.

- d. Establish performance standards and elements for DHCD employees that make them accountable for maintenance of official records.

DHCD RESPONSE

A performance measure, Maintenance of official records in accordance with District and Federal requirements, will be included in performance standards and elements for all appropriate DHCD employees.

EXHIBITS

Exhibit 9: DHCD Responses to the Report, Findings, and Recommendations

FINDING 8: INTERNAL AUDITING

Summary of Finding:

The Division of Audit lacked controls to ensure the Division and its auditors meet Government Auditing Standards and had not completely fulfilled its mission to provide audit coverage to DHCD functions because of its concentration on grant recipients. We attribute the lack of audit coverage throughout DHCD to the lack of a planning process to weigh risks of auditable areas to fraud, waste and mismanagement and to the placement of the Division within DHCD's Office of the Comptroller, which lacks the authority and independence to audit all aspects of DHCD. In addition, the auditors were performing functions more suitable to project monitors and accountants than auditors. As a result, the Division and its auditors have not always met generally accepted government auditing standards (GAGAS), and areas of higher risk within DHCD have not been subjected to internal audit coverage.

RECOMMENDATION 8

- a. Move the Audit Division to the Office of the Chief Operating Officer.
- b. Expand the scope of potential audit coverage to include all DHCD activities and functions.
- c. Prepare and execute an annual audit plan with sufficient flexibility to allow for emergent (unplanned) audit work and develop the plan based on an assessment of risk of DHCD activities to fraud, waste, and mismanagement.
- d. Discontinue routine use of auditors for non-audit effort.
- e. Revise position descriptions and organizational functional statements to require DHCD auditors and the Division to comply with Government Auditing Standards.

DHCD Response:

DHCD will provide responses to each of these recommendations by February 15, 2000.

EXHIBITS

Exhibit 9: DHCD Responses to the Report, Findings, and Recommendations

FINDING 9: DHCD PROCEDURES FOR RESPONDING TO QUESTIONS FROM DISTRICT COUNCILMEMBERS

Summary of Finding:

DHCD failed to respond timely to questions by a Councilmember during a Committee hearing. DHCD ultimately provided the information as it had agreed to do but only after over 90 days had elapsed and after his office notified DHCD that it had not provided the information to the Councilmember.

RECOMMENDATION 9

Provide the OIG with the approved written controls and procedures that ensure DHCD responds timely to Councilmember and Committee requests for information.

DHCD Response:

Formal procedures are being developed and will be reviewed by the Office of Intergovernmental Relations under the Office of the Mayor before its implementation. DHCD will provide the written controls and procedures by March 31, 2000.